

House Study Bill 236 - Introduced

SENATE/HOUSE FILE _____
BY (PROPOSED GOVERNOR BILL)

A BILL FOR

1 An Act creating a student debt reduction organization tax
2 credit available against the individual and corporate income
3 tax, providing for the exclusion of student debt reduction
4 grants from the individual income tax, and including
5 retroactive and other applicability provisions.
6 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

1 Section 1. Section 422.7, Code 2015, is amended by adding
2 the following new subsection:

3 NEW SUBSECTION. 18. Subtract, to the extent included, the
4 amount received by the taxpayer as a student debt reduction
5 grant from a student debt reduction organization pursuant to
6 section 422.11K.

7 Sec. 2. NEW SECTION. **422.11K Student debt reduction**
8 **organization tax credit.**

9 1. *Definitions.* As used in this section, unless the
10 context otherwise requires:

11 a. "*Charitable*" means the same as defined in 26 C.F.R.
12 §1.501(c)(3)-1.

13 b. "*Community service organization*" means an organization
14 that meets all of the following requirements:

15 (1) The organization is located in this state.

16 (2) The organization is organized under chapter 504.

17 (3) The organization qualifies under section 501(c)(3) of
18 the Internal Revenue Code as a charitable organization exempt
19 from federal income tax under section 501(a) of the Internal
20 Revenue Code.

21 (4) The organization performs charitable work.

22 c. "*Educational loan*" means any loan that is made, insured,
23 or guaranteed under Tit. IV of the federal Higher Education Act
24 of 1965, as amended.

25 d. "*Eligible volunteer*" means an individual who is a
26 resident of this state and who has an educational loan made
27 directly to that individual for attendance at a postsecondary
28 educational institution.

29 e. "*Student debt reduction grant*" means a grant to an
30 eligible volunteer to cover all or part of the educational loan
31 of the eligible volunteer, which grant is paid directly to the
32 holder of the educational loan.

33 f. "*Student debt reduction organization*" means an
34 organization that meets the requirements of subsection 2,
35 paragraph "a".

1 2. *Student debt reduction organizations — registration —*
2 *agreements — student debt reduction grants.*

3 a. In order to qualify as a student debt reduction
4 organization, an organization shall meet all of the following
5 requirements:

6 (1) The organization is located in this state.

7 (2) The organization is organized under chapter 504.

8 (3) The organization qualifies under section 501(c)(3)
9 of the Internal Revenue Code as an organization exempt from
10 federal income tax under section 501(a) of the Internal Revenue
11 Code.

12 (4) The organization is controlled by a board of directors
13 consisting of at least seven members. The names and addresses
14 of the members shall be provided to the department and made
15 available by the department to the public, notwithstanding any
16 state confidentiality restrictions.

17 (5) The organization allocates at least ninety percent
18 of its annual revenue to student debt reduction grants to
19 eligible volunteers who have fulfilled a student debt reduction
20 agreement.

21 (6) The organization only awards student debt reduction
22 grants to eligible volunteers who have fulfilled a student debt
23 reduction agreement.

24 (7) The organization prepares an annual financial statement
25 reviewed by a certified public accounting firm.

26 b. A student debt reduction organization shall register with
27 the department in the manner prescribed by the department. The
28 registration shall include all of the following:

29 (1) The information necessary to determine whether the
30 organization qualifies under paragraph "a" of this subsection.

31 (2) A list of the community service organizations
32 affiliated with the student debt reduction organization.

33 (3) Any other information deemed necessary by the
34 department to evaluate the eligibility of the student debt
35 reduction organization.

1 *c.* Once the student debt reduction organization has
2 registered, it is not required to amend its registration unless
3 the community service organizations with which it is affiliated
4 changes.

5 *d.* A student debt reduction organization shall notify the
6 department immediately of a change in circumstances that would
7 cause the organization to no longer qualify as a student debt
8 reduction organization.

9 *e.* A student debt reduction organization shall notify
10 the department of each contribution it receives in the time,
11 manner, and form prescribed by the department.

12 *f.* A student debt reduction organization shall report to the
13 department, on a form prescribed by the department, by January
14 12 of each tax year all of the following information:

15 (1) The name and address of the members and the chairperson
16 of the governing board of the student debt reduction
17 organization.

18 (2) A list of the individual donors for the previous tax
19 year that includes the dollar value of each contribution.

20 (3) The total number and dollar value of the student debt
21 reduction agreements entered into during the previous year
22 with each affiliate community service organization, and the
23 total number and dollar value of all outstanding student debt
24 reduction agreements with each affiliate community service
25 organization.

26 (4) The total number and amount of student debt reduction
27 grants awarded during the previous year from student debt
28 reduction agreements with each affiliate community service
29 organization, identified by the year in which the agreement was
30 entered into.

31 *g.* A student debt reduction organization may affiliate with
32 one or more community service organizations, but a community
33 service organization shall be affiliated with only one student
34 debt reduction organization.

35 *h.* A student debt reduction organization, an affiliate

1 community service organization, and an eligible volunteer may
2 enter into a student debt reduction agreement for the awarding
3 of a student debt reduction grant upon completion of volunteer
4 service by the eligible volunteer with the community service
5 organization. The college student aid commission shall by
6 rule pursuant to chapter 17A establish uniform agreement
7 requirements relating to student debt reduction grants,
8 including but not limited to uniform rules on eligibility for
9 receiving grants, qualifying volunteer service, amount and
10 calculation of grants, and procedures for awarding grants.
11 In order to qualify for a student debt reduction grant, the
12 volunteer service provided by the eligible volunteer shall, at
13 a minimum, be charitable work performed under the supervision
14 and control of the community service organization and in
15 furtherance or support of the mission of the community service
16 organization. The volunteer service need not be performed in
17 this state.

18 *i.* The total value of the student debt reduction grants
19 provided for in the outstanding student debt reduction
20 agreements of a student debt reduction organization shall not
21 exceed the amount of contributions the student debt reduction
22 organization has received that are allocated to and available
23 for the payment of student debt reduction grants.

24 3. *Student debt reduction organization tax credit —*
25 *application — maximum tax credits — reports.*

26 *a.* The taxes imposed under this division, less the credits
27 allowed under section 422.12, shall be reduced by a student
28 debt reduction organization tax credit equal to sixty-five
29 percent of the amount of the voluntary cash contributions made
30 by the taxpayer during the tax year to a student debt reduction
31 organization, subject to the availability of tax credits as
32 provided in paragraph "b". The tax credit shall be claimed by
33 way of a tax credit certificate issued by the department and
34 included with the person's tax return.

35 *b.* The aggregate amount of tax credits authorized pursuant

1 to this section shall not exceed two million dollars per
2 calendar year.

3 *c.* (1) To receive a tax credit, a taxpayer must submit
4 an application to the department for each contribution. The
5 application shall include a written acknowledgment from the
6 student debt reduction organization and any other information
7 required by the department. The department shall not issue a
8 certificate until it verifies as correct the date and amount of
9 the contribution with the student debt reduction organization.
10 The department shall issue certificates under this section on
11 a first-come, first-served basis, which certificates may be
12 redeemed for tax credits.

13 (2) If in a calendar year the aggregate amount of tax
14 credits applied for exceeds the maximum amount specified
15 in paragraph "b" of this subsection, the department shall
16 establish a wait list for certificates. Applications that
17 were approved but for which certificates were not issued shall
18 be placed on the wait list in the order the applications
19 were received and shall be given priority for receiving
20 certificates in succeeding calendar years. Placement on a
21 wait list pursuant to this subparagraph shall not constitute a
22 promise binding the state. The availability of a tax credit
23 and issuance of a tax credit certificate pursuant to this
24 subsection in a future calendar year is contingent upon the
25 availability of tax credits in that particular calendar year.

26 *d.* To be eligible for this credit, all of the following
27 shall apply:

28 (1) A deduction pursuant to section 170 of the Internal
29 Revenue Code for any amount of the contribution is not taken
30 for state tax purposes.

31 (2) The contribution does not designate that any part of the
32 contribution be used for the direct benefit of the taxpayer or
33 any other person designated by the taxpayer.

34 *e.* Any credit in excess of the tax liability is not
35 refundable but the excess for the tax year may be credited to

1 the tax liability for the following five tax years or until
2 depleted, whichever is the earlier.

3 *f.* A tax credit shall not be transferable to any other
4 person.

5 *g.* An individual may claim the tax credit allowed a
6 partnership, limited liability company, S corporation, estate,
7 or trust electing to have the income taxed directly to the
8 individual. The amount claimed by the individual shall be
9 based upon the pro rata share of the individual's earnings of
10 the partnership, limited liability company, S corporation,
11 estate, or trust.

12 4. *Reports.* The department shall annually submit to the
13 governor and the general assembly a report containing the
14 information collected by the department pursuant to this
15 section, and any other information the department may deem
16 relevant and appropriate, except that the information collected
17 pursuant to subsection 2, paragraph "f", subparagraph (2),
18 shall be reported in the aggregate and shall not include
19 individual donor information.

20 5. *Rules.* The department and the student aid commission
21 shall each adopt rules pursuant to chapter 17A to administer
22 this section.

23 Sec. 3. Section 422.33, Code 2015, is amended by adding the
24 following new subsection:

25 NEW SUBSECTION. 27. The taxes imposed under this division
26 shall be reduced by a student debt reduction organization tax
27 credit allowed under section 422.11K. The maximum amount of
28 tax credits that may be authorized under this subsection for a
29 calendar year equals twenty-five percent of the maximum amount
30 of tax credits that may be authorized for a calendar year
31 pursuant to section 422.11K, subsection 2, paragraph "b".

32 Sec. 4. *APPLICABILITY.* This Act applies to contributions
33 made to a student debt reduction organization on or after July
34 1, 2015.

35 Sec. 5. *RETROACTIVE APPLICABILITY.* This Act applies

1 retroactively to January 1, 2015, for tax years beginning on
2 or after that date.

3 EXPLANATION

4 The inclusion of this explanation does not constitute agreement with
5 the explanation's substance by the members of the general assembly.

6 This bill creates a student debt reduction organization tax
7 credit equal to 65 percent of the amount of a voluntary cash
8 contribution made to a student debt reduction organization,
9 provides for the creation of student debt reduction
10 organizations, and excludes student debt reduction grants from
11 the individual income tax.

12 STUDENT DEBT REDUCTION ORGANIZATIONS. The bill provides
13 for the creation and registration of student debt reduction
14 organizations (SDRO). In order to qualify as an SDRO, an
15 organization must be a nonprofit, Internal Revenue Code
16 §501(c)(3) tax-exempt organization located in Iowa and
17 organized under Code chapter 504 (revised Iowa nonprofit
18 corporation Act). The organization must be controlled by
19 a board of directors consisting of at least seven members,
20 the names and addresses of which must be provided to the
21 department of revenue (department) and made available to the
22 public. The organization must prepare an annual financial
23 statement reviewed by a certified public accounting firm. The
24 organization must award at least 90 percent of its annual
25 revenue in student debt reduction grants, and such grants must
26 be made exclusively to eligible volunteers who have fulfilled
27 student debt reduction agreements. "Student debt reduction
28 grant", "eligible volunteer", and related terms are defined in
29 the bill.

30 SDROs are required to register with the department in
31 the manner provided in the bill and as prescribed by the
32 department. SDROs are authorized to affiliate with community
33 service organizations for the purpose of providing student debt
34 reduction grants. An SDRO may affiliate with several community
35 service organizations, but a community service organization

1 may be affiliated with only one SDRO. Community service
2 organizations are nonprofit, Internal Revenue Code §501(c)(3)
3 tax-exempt charitable organizations that are located in Iowa,
4 organized under Code chapter 504, and that perform charitable
5 work. "Charitable" is defined in the bill.

6 An SDRO, an affiliate community service organization, and
7 an eligible volunteer may enter into a student debt reduction
8 agreement for the awarding of a student debt reduction grant
9 upon completion of volunteer service with the community
10 service organization. The college student aid commission is
11 required to establish uniform agreement requirements relating
12 to student loan reduction grants, but in order to qualify for
13 such a grant the volunteer service must, at a minimum, be
14 charitable work performed under the supervision and control
15 of the community service organization and in furtherance or
16 support of the mission of the community service organization.
17 The volunteer service need not be performed in this state. The
18 bill prohibits the value of the student debt reduction grants
19 provided for in an SDRO's outstanding agreements from exceeding
20 the amount of contributions the SDRO has received that are
21 allocated to and available for the payment of student debt
22 reduction grants.

23 When the volunteer service has been performed and the
24 agreement fulfilled, an SDRO is authorized to award a student
25 debt reduction grant to the eligible volunteer and pay the
26 grant directly to the holder of the eligible volunteer's
27 educational loan. The bill provides that student debt
28 reduction grants are exempt from the Iowa individual income
29 tax.

30 SDROs are required to notify the department of the
31 contributions they receive and are required to annually
32 report various information as provided in the bill to the
33 department. The department is required to annually publish a
34 report containing that information and submit the report to the
35 governor and general assembly.

1 STUDENT DEBT REDUCTION ORGANIZATION TAX CREDIT. The bill
2 provides for a tax credit against the individual and corporate
3 income tax equal to 65 percent of the amount of a voluntary
4 cash contribution made to an SDRO during the tax year.
5 Contributions may not be deducted as a charitable deduction for
6 state tax purposes or be designated for the direct benefit of
7 the taxpayer or any other person designated by the taxpayer.
8 The total amount of tax credits authorized each calendar
9 year shall not exceed \$2 million, and of that amount only 25
10 percent (\$500,000) may be authorized against the corporate
11 income tax.
12 In order to receive a tax credit, a taxpayer must submit
13 an application for each contribution to the department
14 containing a written acknowledgment from the SDRO and any
15 other information required by the department. After verifying
16 the validity of the contribution, the department shall issue
17 a tax credit certificate to the taxpayer. The department is
18 required to issue tax credit certificates each calendar year on
19 a first-come, first-served basis until the \$2 million cap is
20 reached. Eligible applicants that do not receive a tax credit
21 certificate in a given calendar year are placed on a wait
22 list in the order the application was received and are given
23 priority for receiving a certificate in succeeding calendar
24 years. The tax credit is nontransferable and nonrefundable,
25 but any excess credit may be carried forward for up to five tax
26 years.
27 The bill applies to contributions made to a student debt
28 reduction organization on or after July 1, 2015, and applies
29 retroactively to tax years beginning on or after January 1,
30 2015.